MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

The Labor Market Continues To Split . . .

July's decline in the civilian unemployment rate to six percent underscores the progressive tightening of the U.S. labor market. Another 304,000 jobs were added to the nation's payrolls last month bringing total civilian employment to a record 112.7 million and raising the civilian employment rate—the proportion of Americans 16 or older holding jobs—to an all-time high of 61.6 percent. Once again, services firms were the major providers of jobs with 82,000 added in July alone, but manufacturing generated 70,000 new payroll slots, about 23 percent of the total new jobs created.

Last month's jump in manufacturing employment came on the heels of job increases in eight of the previous nine months and is an indication that the two-year fall in the dollar has finally stimulated the goods-producing side of the U.S. economy. Perhaps more important was the fact that more of the new jobs are located on the factory floor and not in the administrative front offices. Of July's 70,000 new manufacturing jobs, 61,000 were for production workers. This enabled the unemployment rate in the manufacturing sector to fall from 7.3 percent in October 1986 to six percent last month.

Since the last recession, about 13½ million jobs have been added by U.S. companies. The bulk has been in the trade and services industries: Almost 65 percent of the jobs created in this expansion have come from these two sectors although they account for only 47 percent of total nonfarm employment (see table). The goods-producing side of the economy has not been nearly as prolific. Construction and manufacturing firms have added only 2.2 million jobs since the end of 1982, while the mining industry has actually lost 286,000 positions.

. . . With More Service-Oriented Jobs . . .

These trends have clearly changed the reality, if not the perception, of what Americans do for a living. For instance, the American steelworker has long been a highly visible symbol of the American workforce, but in absolute terms, the steel industry's labor presence is rather small. The number of workers producing steel in the U.S. is about the same as the number of people working in beauty shops. Nondurable goods manufacturers employ 5½ million production workers but that figure is less than the six million Americans working in health care industries. And, in view of the growth of lawsuits in the U.S., it should not be surprising that more people work in legal services than in the entire mining sector!

CHANGES IN THE U.S. LABOR MARKET

(Millions of workers, seasonally adjusted)

	November 1982	July 1987	Absolute change	% of change
Total Nonfarm Employment	88.671	102.115	13.444	100.0
Mining	1.028	.742	−.286	−2.1
Construction	3.843	5.009	1.166	8.7
Manufacturing	18.077	19.098	1.021	7.6
Finance, Insurance & Real Estate	5.356	6.614	1.258	9.4
Transportation & Utilities	5.020	5.344	.324	2.4
Trade	20.383	24.068	3.685	27.4
Services	19.141	24.133	4.992	37.1
Government	15.823	17.107	1.284	9.6

Sources: Bureau of Labor Statistics; MH

The future growth of the U.S. labor market is likely to follow along similar lines. More jobs will be created in such industries as trade, finance and services with fewer positions in manufacturing. The U.S. Department of Labor estimates that by the year 2000 the mix of labor will be even more lopsided. Services and trade will generate about 21 million of the 34 million jobs expected to be created in the next 13 years while manufacturing will lose about 800,000 positions. The Labor Department also projects that the fastest job growth will be in such service-oriented careers as paralegals, medical assistants and computer programmers.

Ironically, while employment has shrunk, the importance of goods production—the combination of manufacturing and mining output—has not varied much in the last few decades. Real goods output as a percent of

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real GNP has actually increased since late 1982, from 41.1 percent to 43.1 percent by the middle of this year. Services' share of GNP, on the other hand, dropped from 49.2 percent to 46.9 percent, while the third component of GNP, construction, maintained a share of about 10 percent during this 4½ year period.

. . . And Fewer in Goods Production

What has allowed manufacturing to increase its importance in the GNP while decreasing its share of the labor market has been the large gains in productivity in our nation's factories. In just the first two quarters of 1987, the manufacturing sector improved output by annualized rates of three percent and 3.3 percent, respectively. This is in sharp contrast with nonfarm businesses excluding manufacturing. Companies in these industries saw productivity increase at a miniscule annual rate of 0.9 percent in the second quarter after falling 0.5 percent in the first quarter on top of consecutive drops in the previous three quarters of 1986. In fact, while manufacturing has increased productivity by almost a third since 1977, the rest of the private nonfarm economy has experienced about a two percent *drop* in output per man-hour.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/29/87)	164,839	– 71	+ 9,630
New York City (8/5/87)	37,516	+ 668	+ 4,036
Commercial Paper (8/5/87)	345,127	– 2,762	+ 27,254

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/29/87)	269,639	– 1,776	+10,982
New York City (8/5/87)	56,935	– 208	+ 363

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/29/87)	788,974	+ 2,514	+49,492
New York City (8/5/87)	172,270	– 1,462	+14,337

Financial Markets

	Friday 8/14/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	6.11%	+ .09	+ .41
180-Day Bills †	6.29	– .10	+ .53
Longest Bills †	6.84	– .05	+ .91
Recent Issues:			
7⅝s 7/31/89	7.57	– .05	
7⅞s 6/30/91	8.03	– .11	
8⅝s 8/15/97	8.58	NA	
8⅞s 8/15/17	8.79	NA	
Municipals:			
Bond Buyer–20 Bond Index* (8/13/87)	7.76%	– .10	+ .43
Blue List Total ($ Million)	$1,534	– $ 241	–$ 734
30-Day Visible Supply ($ Million)	$2,798	+ $1,306	–$ 384
Total	$4,332	+ $1,065	–$1,118
Corporates:			
Moody's Aa Composite (8/13/87)	9.85%	–0–	+ .62
30-Day Visible Supply ($ Million)	$2,558	+ $ 603	+$ 337
Stocks:			
Dow-Jones Averages:			
Industrials	2,685.43	+ 93.43	+829.83
Transportation	1,101.16	+ 18.31	+345.16
Utilities	213.79	+ 9.25	+ 2.55
65 Stocks	989.08	+ 30.24	+270.60
N.Y.S.E. Composite Index	186.69	+ 5.82	+ 44.47
N.Y.S.E. Avg. Daily Vol. for Week (000's)	223,011	+ 28,533	+90,681

*34% Taxable equivalent 11.76%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/14/87	Week Ago
Overnight	6.44%	6.44%
1 month	6.63	6.69
3 month	6.88	6.94
6 month	7.13	7.19
1 year	7.50	7.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.65%	8.30%
Long Term (10 yrs.)	9.42	9.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/14/87)	Currency Per U.S. $	Week Ago
Canada	1.3315	1.3257
France	6.2080	6.2750
Germany	1.8790	1.8845
Italy	1361.50	1368.00
Japan	150.70	151.35
Mexico	1454.00	1449.00
Switzerland	1.5620	1.5645
U.K.*	1.5850	1.5695

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (8/14/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	–0.2%	–1.9%

These recent developments in the U.S. labor markets are not without long-run implications. First, the jobs that will be created during the rest of this century will require more technical and educational skills than those demanded by entry-level positions of previous years. The growth in jobs needing medical and computer knowledge will demand workers with more years of schooling, especially in college and beyond. But at the same time, growth in the working-age U.S. population will taper off significantly, shrinking the pool of available workers and limiting the requirements employers can place on job applicants.

Secondly, the poor productivity performance of the service sector is worrisome. Manufacturing learned the hard way that market share, either domestically or worldwide, is lost when costs run too high. Unless the service industries can improve their output relative to the increased costs of new employees, the U.S. may lose its price-competitiveness in services exports which currently account for 25 percent of all our exports. For while the U.S. is still preeminent in the exporting of services such as banking and engineering, increased competition is already being exerted by Japan and other countries. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/12/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov't and Agencies Owned Outright & RPs	214.299	– 1.645	+20.892
Loans to Depository Inst.	.571	+ .014	– .241
Float	.440	– .158	+ .006
Total Reserve Bank Credit	231.522	– 1.591	+20.123
Treasury Deposits with Federal Reserve Banks	3.106	– 2.155	– .589
Currency in Circulation	217.322	+ 1.093	+15.849
Gov't held for Foreign Acct. by F.R. Banks (End-of-Week)	176.490	– 2.480	+20.999
	8/12/87		
Member Bank Reserves:			
Total Reserves Held	57.399	+ .319	+ 6.897
Excess (Deficiency)	.725	– .285	+ .140
Net Free Reserves	.281	– .210	+ .082
Monetary Aggregates †		**% Change Since 3 Months Ago***	**% Change Since Year Ago**
M1 (8/3/87)	751.8	– 1.9‡	+ 10.5‡
M2 (July '87)	2,847.9	+ 1.4	+ 5.7
M3 (July '87)	3,574.4	+ 4.0	+ 6.1
Domestic Nonfinancial Debt (1st Q'87)	7,805.2	+ 6.4	+ 11.7

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 8/14/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.97%	6.08%	6.84%
* Federal Agencies	6.55	6.55	6.68
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.06	6.44	6.82
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.70	7.01	7.35

‡Finance Company Paper—Prime

5- 14 days	6.40%
15- 29 days	6.45
30- 59 days	6.55
60- 89 days	6.60
90-179 days	6.65
180-239 days	6.65
240-270 days	6.65

‡* Bankers' Acceptances

Sep.	6.60%
Oct.	6.65
Nov.	6.70
Dec.	6.75
Jan.	6.85
Feb.	6.85

‡Industrial Paper—Prime

30- 89 days	6.62%
90-120 days	6.67

†Federal Funds Effective Rate 6.70%

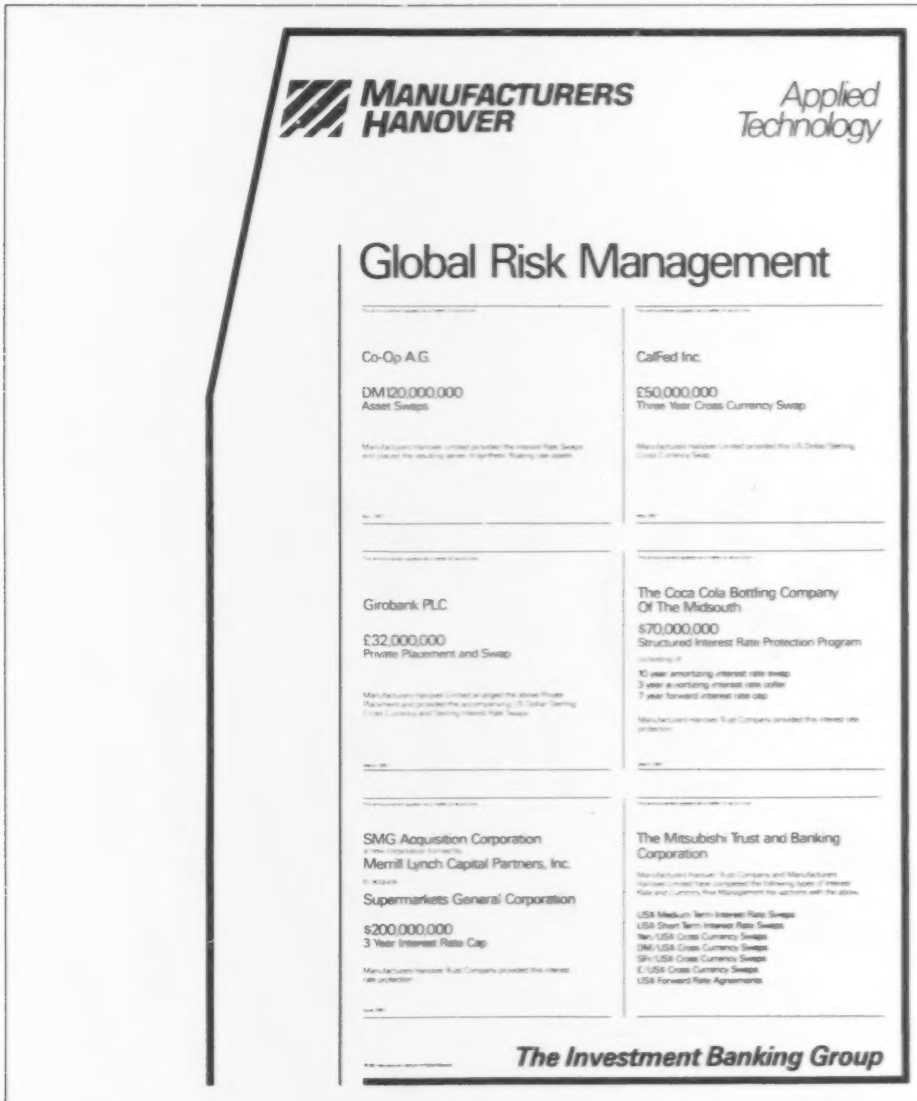
‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'87	$ 4,449	$ 4,378	$ 4,212
Gross National Product (1982 Dollars)*	2nd Q'87	$ 3,796	$ 3,772	$ 3,705
Percent Change, Annual Rate	2nd Q'87	2.6	4.4	0.6
Change in Consumer Prices*	Jun '87	4.8% (1)	3.6% (1)	4.8%
Change in Producer Prices*	Jul '87n	2.4%	2.4%	– 9.6%
Civilian Employment (Thousands of Persons)†	Jul '87n	112,727	112,257	109,887
Unemployment as % of Civilian Labor Force†	Jul '87n	6.0%	6.1%	7.0%
Personal Income*	Jun '87	$ 3,731	$ 3,718	$ 3,528
Leading Indicators Composite Index (1967=100)†	Jun '87	190.4	188.9	178.3
Industrial Production Index (1977=100) †	Jul '87n	129.8	128.8r	124.9
Net Change in Consumer Installment Credit †	Jun '87n	$ 3.46	–$ 0.32r	$ 5.01
U.S. Merchandise Trade Balance	Jun '87n	–$ 15.71	–$ 14.04r	–$ 13.25
Plant and Equipment Expenditures*	3rd Q'87	$397.06(a)	$392.02(a)	$374.55
Private Housing Starts (Thousands of Units)*	Jun '87	1,590	1,602	1,842
New Construction Expenditures*	Jun '87n	$ 390.1	$ 394.3r	$ 371.6
Total Business Inventories †	Jun '87n	$ 674.2	$ 671.6r	$ 654.1
Total Business Sales †	Jun '87n	$ 453.1	$ 446.3r	$ 422.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.



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